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ABSTRACT: Don Kniffen is assistant treasurer of the  
automotive supply company The Budd Co., which since its  
participation in the General Motors payment network in 1987, has  
been an active player in financial electronic data interchange  
(EDI). In an interview, Kniffen said that financial EDI is a  
segment of an overall EDI program that began at Budd in the late  
1970s. In 1994, nearly all data transactions between Budd and  
the domestic big 3 original equipment manufacturers (OEM) related  
to products supplied by Budd are transmitted electronically. In  
addition to sending data, General Motors pays Budd via  
electronic funds transfer. One of the major issues Budd has dealt  
with in working with financial EDI transactions is industry  
versus proprietary technical and processing standards and  
compatibility of systems across a multitude of trading  
partners. However, through efforts of the Automotive Industry  
Action Group, industry standards have solved this problem.

TEXT: The Budd Company, with \$1.5 billion in annual sales,  
supplies a full range of parts to the automotive industry.  
Since its participation in the General Motors payment network  
in 1987, Budd has been an active player in financial EDI. In

this exclusive interview, Budd's Assistant Treasurer Don Kniffen describes his company's highly successful EDI programs and offers words of wisdom to companies about to take the high-tech route.

TMAJ: Why did you decide to implement financial EDI at Budd and when did your program begin?

KNIFFEN: Financial EDI is actually a segment of an overall EDI program that began at The Budd Company in the late 1970s. Budd started by transmitting Advance Shipment Notifications (ASNs) to its major automotive Original Equipment Manufacturer (OEM) customers; then, our customers started sending weekly build schedule releases to Budd. This has since evolved into a complete "closed loop" set of electronic transactions between Budd and the "Big Three" OEMs, covering everything from purchasing through manufacturing and shipping to the financial payment processing. The initial reason Budd began implementing these systems was because our customers wanted them and the automotive industry was moving in that direction. However, equally important is the fact that we would gain significant benefits. The financial transactions are actually just a segment of the total set of electronic business data being processed.

TMAJ: What is the status of the program to date?

KNIFFEN: Today, nearly all data transactions between Budd and the domestic big three OEMs related to products supplied by Budd are transmitted electronically. In addition to sending data, General Motors pays us via electronic funds transfer (EFT). Ford and Chrysler still pay us by check, but transmit payment remittance detail electronically. Other Budd customers are in varying stages of implementation, depending mainly on the extent to which they have developed their systems.'

At this time, we are in the process of implementing similar systems with our major suppliers so that we will increase significantly our use of financial EDI on both the buying and selling sides of our business. This will still take several years to complete.

TMAJ: From a treasurer's perspective, what are some of the major benefits of financial EDI? How much money have you actually saved using the technology?

KNIFFEN: The major benefits of financial EDI include:

- \* Fewer data input errors, resulting in improved accuracy of all affected records.
- \* Improved cash availability and predictability, and timely reporting to cash management functions.
- \* Substantial reduction in manual/clerical workload both in

preparation and recording of data transactions and reduction in time spent on error correction and reconciliation with customers.

- \* Elimination of many hard copy documents as well as data redundancy. This reduces both document and data processing costs.

- \* Timely updating of financial database files, including accounts receivable, credit, and general ledger.

- \* Improved relationship with customers as well as, in some cases, meeting customer requirements.

It is difficult to quantify actual dollar savings related to the financial EDI functions, especially because they are a segment of the overall EDI system. However, since we implemented the program, the complete program of EDI systems with our primary automotive customers has saved us millions of dollars.

TMAJ: What are some of the issues you have had to deal with in working with financial EDI transactions? Issues might include float management, legal, audit and security concerns, cost/benefit analysis, and lack of trading partners. How did you handle some of these issues?

KNIFFEN: One of the major issues is industry versus proprietary technical and processing standards and compatibility of systems across a multitude of trading partners. Initially, as these systems were developed, it seemed every company had its own format and communication systems. Especially through efforts of the Automotive Industry Action Group (AIAG), there are now industry standards in place to solve this problem.

The issue of float always comes up when considering and dealing with EFT payments. Fortunately for us, General Motors' decision to unilaterally use three days to simulate float in its EFT program was not worse than what we were experiencing in the check world. However, other trading partners have suggested float terms that differ from check float related to those companies by two or more days. This could prohibit us from agreeing to implement EFT programs. We have studied float related to our supplier payments, but have not determined a solution for all partners. This is definitely a major issue.

Another key issue has been the lack of trading partners ready or willing to implement financial EDI; especially when you go beyond the giant corporations which have the resources available for such projects. In many companies, senior management is not yet convinced of the benefits of EDI, and in particular, it is not convinced that the benefits derived from financial EDI will offset the substantial costs of developing, implementing and maintaining ongoing operations. A company needs one or more "champions" to sell these systems. Such individuals must come not only from the Information Systems departments, but also from key operating areas. A

controller or treasury representative can be an important supporter.

Legal, audit and security concerns must be addressed but have not seemed to present any problems. These issues have been handled quite readily up to this point.

In any case, resolution in most cases involves some degree of compromise between trading partners. Industry trends and standard practices help resolve some items.

At The Budd Company, a task force including representatives from Information Systems, Sales and Marketing, Manufacturing Operations, and Financial Management supported the initial and subsequent EDI applications projects. Senior management had to be sold on the benefits of EDI in order to obtain financial support. It was not easy in the beginning, but as implementation progressed, and real benefits were realized, the systems somewhat sold themselves.

TMAJ: What lessons have you learned from implementing a financial EDI Program?

KNIFFEN: By the time Budd implemented the financial EDI applications, it had gained years of experience with non-financial EDI. Many lessons learned throughout those earlier years have been applied, resulting in less interference and inefficiency than previously experienced. However, some important lessons along the way are:

- \* If you want to be a pioneer, expect to pay a price. It's easier to learn from someone else's mistakes and lessons than to go through a complete learning experience every step of the way, redesigning and re-installing systems in order to achieve desired results. Do what is required to "do it right the first time."

- \* It may be worth waiting for industry standards to guide you if they are available or expected in a reasonable time. Lacking standards, Budd and its customers developed individual proprietary systems tailored to the few initial issues we faced. As the network grew, the lack of integration and commonality resulted in a complex collection of similar but different modules. When standards were developed, we had a major redesign task on our hands; which was very time-consuming and expensive.

- \* As much as possible, get what you want upon implementation. It's hard to change once operations have begun.

- \* One of the biggest tasks in implementing financial EDI applications is handling all of the non-standard exception transactions. Even though these may be a minor part of the total activity, an automated system requires they be handled mechanically. It is essential to identify all such possibilities

and build into the system whatever is necessary to process these, along with the high-volume, "normal" data.

\* In Budd's case, using a bank as a third-party service provider relieved us of some initial workload and removed some of the complexity due to variations in customers' data. The bank took on some of that responsibility.

TMAJ: Contrary to what was predicted several years ago, corporate America does not appear to have embraced financial EDI. What do you think is responsible for this apparent lack of enthusiasm? What do you think can be done to encourage the growth of EDI?

KNIFFEN: Several factors may be contributing to the slow growth of EDI in general, including financial EDI. First, it is time-consuming and expensive to initially develop and implement a program. Many companies are struggling to survive or maintain the status quo, and EDI is far from the top of their prioritized list of needs. I don't think everyone is convinced of the need, and even more so, of the benefits of financial EDI. Until more executives believe there are substantial tangible benefits, it will be displaced by other applications with seemingly more to offer. Another factor is a lack of trust in the EDI system. A piece of paper is still concrete evidence supporting a business transaction and is easily understood and accepted. An "invisible" electronic transaction, such as an invoice or a payment, is easier to lose, discredit, or in other ways discount in the minds of many, especially non-technical people. This is the result of a lack of proper training and knowledge for the people who must support these systems being developed.

The best way to encourage the use of EDI is adequate training and education supported by "real proof" cases of successful EDI applications. Success is easier to believe when it is seen. "Show me" works wonders. Although every company needs someone to champion this technology, somewhere along the way, senior management must believe and support EDI as a way of doing business. Otherwise, it will struggle to survive and likely may fail. Professional organizations such as TMA, the banking industry and advanced technology trading partners must all help to both promote the technology and educate those who must use the systems when they are developed.

TMAJ: What do you think the future holds for financial EDI? Is use of the technology about to take off, and if so, what are some of the areas that seem to have the most potential for growth?

KNIFFEN: Like most new technologies and innovative ideas, financial EDI will take off and become a way of life in American business. Any big progressive step takes time and effort to get rolling. What people do not realize is how much they are already living in a financial EDI world in their own private lives, with direct deposit of payroll, automated teller

machines (ATMs), credit cards, computerized bill and tax payments using home computers, and the like. If they would apply some of the convenience and enhanced efficiency they have gained with the use of these applications to their business environment, financial EDI might start moving forward faster.

The most beneficial and acceptable financial transactions include electronic invoicing and payment remittance detail. These almost fully automate the accounts receivable cycle, resulting in a substantial reduction in workload, and improved accuracy and timeliness. Probably the most difficult area to sell will be the electronic payment itself. TMAJ: Is there anything else you would like to add or are there any words of wisdom you would like to offer to companies about to start their own Programs?

KNIFFEN: Spend lots of time with your trading partners to ensure that they are in sync with your system plans. Don't hesitate to call on successful companies which are already down the road of implementation. There's no harm in learning from others. Make sure that you have upper management support, as well as understanding before a program progresses very far. Implementing EDI can be costly and time-consuming; thus, management must be patient. Educate the people most responsible for the programs through professional training, contacts with successful implementors and financial professionals who have enough expertise to help. Proceed slowly and consider starting with pilot applications that are manageable. Then, have faith and be persistent--it is worth it!

Don Kniffen is Assistant Treasurer with The Budd Company. His responsibilities include corporate financing, cash management/accounting and forecasting, and financial planning and reporting. He has an M.B.A. degree from Michigan State University.

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